



# BENEFITS LEADER

Your Guide to Health & Welfare Compliance

QUARTER 1 2025

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# 2025 MEDICARE PART D CHANGES

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Recent changes to Medicare Part D coverage, implemented as part of the Inflation Reduction Act, will impact the creditability status of some employer-sponsored health plans. **These updates took effect on January 1, 2025**, and could require employers to reassess whether their plans meet the standards for creditable coverage.

Employers must inform Medicare-eligible employees and their beneficiaries by **October 14** of each year whether the plans offered are creditable. They are also required to report this information to CMS within 60 days after the start of the plan year.

## WHAT IS CREDITABLE COVERAGE?

A plan is considered creditable if it is expected to cover, on average, at least as much as the standard Medicare Part D Rx plan. In other words, a creditable plan has an actuarial value equivalent to or higher than the standard plan.

Among the changes introduced for 2025 was a drastic reduction in the standard plan's maximum out-of-pocket amount from **\$8,000 in 2024** to just **\$2,000 in 2025**. This change increases the standard plan's actuarial value and, as a result, will change the creditable status of some employer-sponsored plans. Before reporting to CMS or informing employees of creditable status, plan sponsors should confirm whether their plans are creditable under the current standards.

## NOTIFICATION & REPORTING DEADLINES

While the deadline for reporting to CMS varies based on a plan's start date, the October 14 deadline for informing employees of creditable status is a fixed date that applies



uniformly to all plans. This deadline corresponds to Medicare's open enrollment period, which begins on October 15 and ends on December 7 each year. Employers must also distribute the notice:

- Before an individual's initial Medicare Part D enrollment period
- Before coverage becomes effective for any Medicare-eligible individual
- When requested by an employee or beneficiary
- When Rx coverage is discontinued or the creditability status changes

The varying dates for CMS reporting are provided in the chart on the following page.



PLAN START DATE	REPORTING DUE DATE
January 1	March 1 (February 29 on leap year)
February 1	April 1 (March 31 on leap year)
March 1	April 29
April 1	May 30
May 1	June 29
June 1	July 30
July 1	August 29
August 1	September 29
September 1	October 30
October 1	November 29
November 1	December 30
December 1	January 29

Medicare Part D Reporting must be completed electronically through the CMS website. CMS states:

“An entity is required to provide a disclosure to CMS through completion of the Disclosure to CMS Form (Form CMS-10198) posted on the CMS Creditable Coverage Web Page at [http://www.cms.hhs.gov/CreditableCoverage/45\\_CCDisclosureForm.asp#TopOfPage](http://www.cms.hhs.gov/CreditableCoverage/45_CCDisclosureForm.asp#TopOfPage). This method of transmission is convenient and will take minimal time to complete, and is the sole method for compliance with the requirement, unless the entity does not have internet access.”

For further guidance, please refer to Creditable Coverage Disclosure to CMS Guidance.

# FEDERAL TAX TREATMENT OF STATE-MANDATED PAID FMLA

**Michelle Barki, RN, JD**  
Senior Legal Counsel

Ever wonder how the IRS looks at paid family medical leave that certain states have mandated and how it impacts federal taxes for both employees and employers? The IRS has now published Revenue Ruling 2025-4, outlining the following:

1. Employee Contributions
  - a. If an employee is required to contribute to the state-mandated paid FMLA program through payroll deductions, those amounts are considered taxable income for federal income tax and employment tax purposes (e.g., Social Security)
  - b. These contributions must be reported in Box 1 of the W-2
2. Employer-Paid Contributions
  - a. If an employer voluntarily pays an employee's required contribution, that amount is taxable and must be reported in Boxes 1, 3, and 5 of the W-2
3. Employer-Mandated Contributions
  - a. If an employer is required by state law to make premium payments, those contributions are treated as state taxes and are not taxable income to the employee
  - b. In this case, the employer has no federal reporting obligations for these employer-mandated contributions

In addition, any benefits paid to an employee under state-mandated paid family leave are to be included in the employee's gross federal income, regardless of whether the employer or the employee paid the premiums. However, these benefits are not considered wages for federal employment tax purposes, such as Social Security and Medicare, and the state paying the benefit to the employee will furnish a Form 1099.

## SPECIAL RULE FOR EMPLOYEE'S OWN SERIOUS HEALTH CONDITION

However, the tax treatment changes if an employee takes leave due to their own serious health condition. In this case, a portion of the benefit received may be considered taxable income based on the employer's mandated cost. For example, if the employer is required to pay 40% of the cost, then 40% of the benefit amount will be imputed to the employee as taxable federal income. In addition, employment taxes will also have to be paid. Any premium amount the employer voluntarily pays on behalf of the employee is not imputed to the employee when benefits are paid.

Employers should consult with their CPA or legal counsel for further guidance on compliance and reporting requirements.

For more information, please refer to revenue Rule 2025-4.

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# UNDERSTANDING EXCEPTED BENEFITS: FSAs, HRAs, WELLNESS PROGRAMS, & ACA COMPLIANCE

**Michelle Barki, RN, JD**  
Senior Legal Counsel

Excepted benefits, such as Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), and certain wellness programs, offer employers the flexibility to provide valuable employee benefits while potentially avoiding some of the stringent requirements of the Affordable Care Act (ACA), which mandates that group health plans cannot impose annual or lifetime limits on essential health benefits.

## FLEXIBLE SPENDING ACCOUNTS (FSAs)

FSAs allow employees to set aside pre-tax dollars to reimburse themselves for qualified medical expenses not covered by their health insurance. For 2025, the maximum annual contribution limit for an FSA is \$3,300, meaning employees can contribute up to \$3,300 through payroll deductions during the 2025 plan year.

To qualify as an excepted benefit under the ACA, an FSA must be offered alongside a traditional group health plan. While employees can contribute up to \$3,300 to their FSAs, employer contributions have additional limitations, including:

- For an FSA to be considered an exception, employer contributions are generally limited to \$500 per employee
- If an employer contributes more than \$500, the employee must match those contributions on a dollar-for-dollar basis

## HEALTH REIMBURSEMENT ARRANGEMENTS (HRAs)

HRAs are employer-funded accounts that reimburse employees for eligible medical expenses. There are different types of HRAs, with varying compliance implications:

1. **Traditional HRA:** Must either be integrated with an employer's major medical plan or qualify as an excepted benefit. A traditional HRA may qualify as an excepted benefit by reimbursing only limited-scope dental and vision expenses (rather than general medical expenses).
2. **Excepted Benefit HRA (EBHRA):** An HRA that may reimburse general medical expenses without requiring employees to enroll in the employer's major medical plan, and is still treated as an excepted benefit as long as the major medical plan is offered to all EBHRA-eligible employees and the maximum reimbursement does not exceed an indexed annual amount.

## WELLNESS PROGRAMS

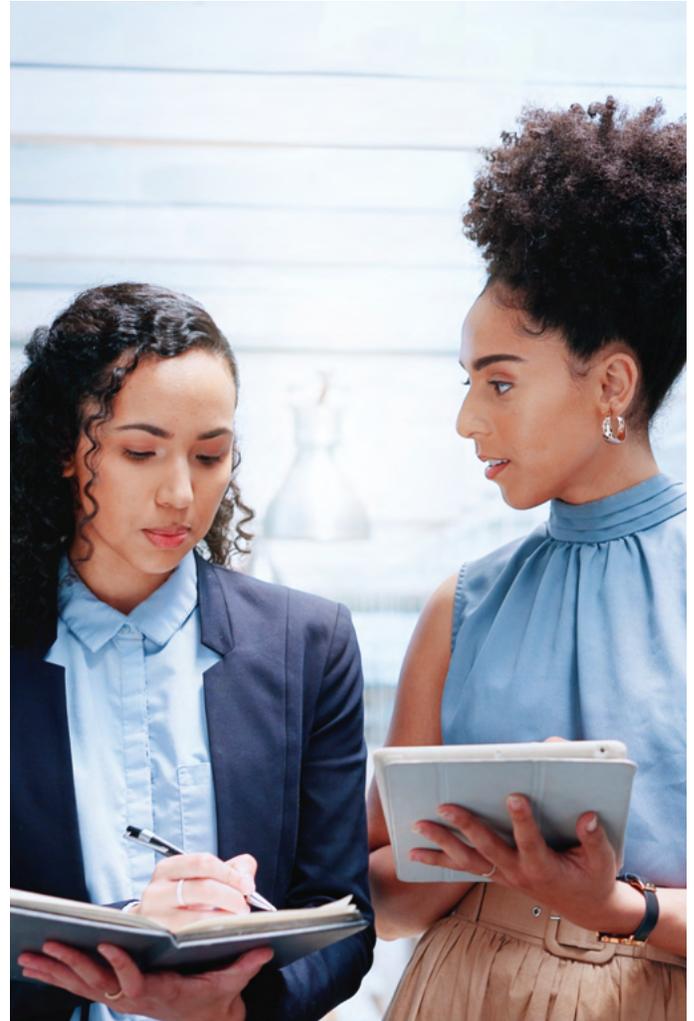
Wellness programs aim to improve employee health and well-being through initiatives like fitness programs, smoking cessation, and health screenings. To qualify as an excepted benefit, wellness programs must:

- Follow specific nondiscrimination rules
- Avoid excessive reimbursements that may be perceived as a means to generate tax-free income

*Article continues on next page.*

The IRS scrutinizes programs that offer excessive reimbursements with minimal effort, as evidenced by a 2023 Chief Counsel memorandum that highlighted the tax implications of significant wellness payments not directly tied to actual medical expenses. This aligns with IRS guidance on fixed indemnity plans, which emphasizes that reimbursements must be directly related to actual medical expenses to be excluded from an employee's gross income.

Navigating the complexities of excepted benefits requires careful attention to detail. Employers must thoroughly review the specific requirements for each type of excepted benefit, including eligibility criteria, covered expenses, reimbursement limits, and any applicable annual contribution limits. Consulting with qualified tax and legal professionals is crucial to ensure compliance with all applicable laws and regulations. Clear and concise communication of program rules, eligibility requirements, and limitations to employees is essential. Regularly reviewing and updating benefit programs to reflect changes in regulations and best practices is vital for ongoing compliance.



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# UPCOMING DEADLINES

## ■ MARCH 31, 2025 | ACA Forms 1094-C & 1095-C Electronic Filing Deadline

**ALEs** are required to report health plan coverage info to IRS using Forms 1094-C & 1095-C. A 30-day extension is available by submitting Form 8809 by the original filing due date.

## ■ MARCH 31, 2025 | ACA Forms 1094-B and 1095-B Electronic Filing Deadline

**Non-ALEs** with self-insured health plans must report health plan coverage info to IRS using Forms 1094-B & 1095-B. A 30-day extension is available by filing Form 8809 by the filing due date.

**Note:** Most employers subject to ACA reporting must file electronically; paper filing only allowed for small employers submitting less than 10 returns annually.

## ■ APRIL 15, 2025 | Last day for 2024 HSA Contributions or corrections

Employers & individuals have until the tax filing deadline to make HSA contributions and corrections for the calendar year.

## ■ JUNE 1, 2025 | Prescription Drug Data Collection (RxDC) Report Due

Annually on June 1, **health plans & health insurance issuers** must report prescription drug and healthcare spending to the federal government. Most employers rely on issuers, TPAs, or PBMs to prepare and submit the report.

## ■ JULY 31, 2025 | Report & Pay PCORI Fee

Employers with self-insured health plans are required to pay an annual fee to support the Patient-Centered Outcomes Research Institute (PCORI). Employers report and remit these fees using **IRS Form 720**, with payments due **July 31** of the year following the end of the plan year.

## ■ JULY 31, 2025 | File Form 5500

Employers with ERISA-covered welfare benefit plans must file Form 5500 annually unless exempt. The form is due by the last day of the seventh month following the end of the plan year (July 31 for **calendar-year plans**).

Employers can request a one-time automatic extension of 2.5 months by submitting IRS Form 5558 by the original due date of Form 5500.



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